Strong demand under new contracts exceeds federal power supply

BPA must purchase power to fill the gap and adjust rates to cover costs

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PORTLAND, Ore. – Customer demand under new 10-year wholesale power contracts with the Bonneville Power Administration is so strong that the agency must purchase power on the market to augment its supply.

"To recover the cost of these purchases, the agency proposes to tack a 15 percent charge onto wholesale rates that go into effect Oct. 1, 2001," said Paul Norman, BPA senior vice president. This is being done through proposed revisions to the agency's Cost Recovery Adjustment Clause (CRAC).

Even with an additional charge, BPA's wholesale rates are still well below wholesale market prices currently forecast for the next five years on the West Coast, BPA officials said.

BPA signed new wholesale contracts last week with more than 130 Northwest utilities and industries, most of them for 10-years, said Norman. Those agreements pushed the agency's total firm energy load – the amount of energy BPA must supply – up to 11,000 megawatts. That's more than earlier agency predictions and nearly 3000 more than the federal Columbia River Power System can generate on a firm basis.

"Costs in the deregulated wholesale power market have become very volatile," Norman explained. "Recent steep increases and an apparent upward trend in market prices have prompted utilities formerly purchasing power in the market to bring their business back to BPA."

And, BPA will have to augment its supply in that same market. The proposed 15 percent charge is due solely to higher costs of purchased power. Other utilities in the Northwest have announced rate hikes in recent weeks for the same reason.

Earlier this year, BPA filed proposed power rates with the Federal Energy Regulatory Commission (FERC) for the October 2001 to October 2006 period. The rate for public agency customers and the residential and farm customers of investor owned utilities was set at about 2.2 cents a kilowatt hour, almost unchanged from rates in effect since 1996. The proposed 15 percent wholesale increase will affect each BPA customer's retail rates differently, depending on that entity's other costs.

BPA needs this adjustment to ensure timely repayment of obligations to the U.S. Treasury for investment in the Federal Columbia River Power System. This is essential to maintaining the region's low, cost-based rates. BPA's proposal includes the ability to invoke additional cost recovery increases later in the five-year period if needed to maintain financial stability and meet all of its obligations.

The proposal will be reviewed in a proceeding before an administrative law judge before being submitted in the spring to FERC for approval.

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Questions and Answers

BPA Contracts and Rates

How many customers signed contracts and for how much power?

135 public customers signed up for 6,600 average megawatts (aMW). This includes 2,000 aMW of slice and about 1,200 aMW of block sales. Of 135 customers, 127 signed 10-year contracts and eight signed five-year agreements.

Six investor-owned utilities signed contracts for 1,000 aMW. Five signed for 10 years and one signed for five years. Eight direct-service industries signed up for about 1,500 aMW.

Total commitments equal 9,100 aMW. Total BPA sales of all types now add up to about 11,100 aMW.

How much augmentation power will BPA need to purchase?

BPA will need to purchase about 3,200 aMW. The additional load comes to BPA at a time when wholesale prices are high in the West Coast electricity market.

What does BPA expect to pay for augmentation power?

BPA expects to pay more than $40 per megawatt-hour for about 2,300 aMW that remains to be purchased.

What effect will this have on retail rates?

Every utility customer has different power, operating and capital costs, which determine its rates. Some buy all their power from BPA; some only a portion. All have different operating costs. For a precise calculation, contact the utility in question.

What would BPA do if its revenues fell below acceptable levels at the end of the fiscal year, even after the proposed 15-percent cost recovery adjustment?

BPA has included a financial Cost Recovery Adjustment Clause. It would trigger if accumulated net revenues at the end of a given fiscal year dropped below $660 million. It would be capped at $330 million. BPA's power supply depends on snowfall to replenish the hydro system, so the agency must retain sufficient revenues to ensure a high probability of making scheduled payments to the U.S. Treasury.

Can BPA avoid the rate adjustment by cutting costs or some other means?

BPA has already cut its costs and lowered its rates 13 percent in 1996. BPA will continue to hold down costs and manage its finances in a way that keeps rates as low as possible. However, unprecedented levels of additional market risk make it necessary for BPA to propose revising the Cost Recovery Adjustment Clause

Does the term "Cost Recovery Adjustment Clause" imply that the rate increase is temporary?

BPA sells power at cost. The charges will remain in effect as long as needed to cover costs. If market conditions should improve and BPA were to over-recover revenues, the rate provides for distribution of a dividend to customers. In addition, the financial cost recovery adjustment clause only goes into effect for one year at a time. If it is not needed, it does not trigger.

Will the direct service industries pay the rate increases associated with the Cost Recovery Adjustments?

Yes. Higher market costs will affect all customers, including DSIs. BPA will work with the DSIs to amend the subscription contract to allow them limited benefits from re-marketing power if they choose to reduce load when the Cost Recovery Adjustment is applied.

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